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SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [ENRG](#) [EFIN](#) [I2](#)

SUBJECT: Iraq: Turkey Companies Need Cash to Increase Oil

SENSITIVE BUT UNCLASSIFIED.

Coordinated with ConGen Istanbul.

1. (SBU) Summary. Turkish companies supplying refined petroleum products to Iraq's State Oil Marketing Company (SOMO) say they have the physical capacity to boost shipments to Iraq dramatically, but are not able to do so unless SOMO regularizes overdue payments. They appreciate the help of the U.S. Government, but suggest that more -- for example, creation of a special financing facility that could include a USG guarantee -- be done so that the companies can continue to finance the purchase and transport of product to Iraq. Short of creating such a facility, the U.S. might help improve weak communication between the companies and SOMO, such as by organizing a meeting inside or outside of Iraq. End Summary.

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READY TO INCREASE SUPPLY, BUT NEED FINANCING  
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2. (SBU) Representatives of approximately 10 of the Turkish companies supplying oil to SOMO told Economic Counselor and Istanbul Pol/Econ Chief November 18 that they were physically able to increase their supply of refined oil products to Iraq by 50%. Both their trucking fleets and Turkish port capacity were sufficient to support such an increase, they claimed. However, they would be unable to maintain their current level -- much less increase the flow -- if SOMO does not regularize its payments to the supplier companies.

3. (SBU) The companies said that as of November 18, the total amount receivable from SOMO was \$708 million. Of this, \$438 million was more than 45 days overdue. The companies deeply appreciated the efforts of Embassies Baghdad and Ankara in obtaining the recent \$400 million payment, but said that, as small companies with shallow pockets, they could not continue supplying SOMO under such conditions. With banks unwilling to take the risk of non-payment by SOMO, the companies need the financial reflows from SOMO payments in order to purchase new supplies on the international market. Without the cycling of cash, they simply cannot continue working.

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UNCOMMUNICATIVE, HIGH-HANDED SOMO AGGRAVATES SITUATION  
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4. (SBU) The company reps complained bitterly about the difficulty they have in communicating with SOMO. SOMO officials, they said, respond neither to written letters nor to requests for meetings in Iraq. When there is a meeting, the discussion never moves beyond pleasantries to the details of contracts and payments. Furthermore, SOMO acts in a high-handed manner, unilaterally canceling contracts, deducting amounts from payments due for unclear reasons, and using threat of non-payment to extract concessions from the companies. The companies gave SOMO the benefit of the doubt, noting that was not traditionally an importing company. They also understood that the overall Iraqi budgetary situation is extremely tight. But, they observed that SOMO, with the help of its contractor Sabro, was able to track every load of product entering Iraq -- why wasn't it able to keep track of its accounting, they asked rhetorically.

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A SPECIAL FINANCING FACILITY  
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5. (SBU) As they have before, the companies suggested that the United States assist in the creation of a special financial facility or fund that could insure the companies against the risk of non-payment by SOMO. This would give banks confidence to provide finance. They said the companies would be prepared to make contributions into such a fund based on the amount of product they ship. The companies also felt that a USG guarantee would be necessary. In addition, the companies seek to have SOMO pay interest on late payments, which they say is not currently the case.

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COMMENT: POSSIBLE U.S.-ORGANIZED CONFAB?  
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16. (SBU) The company reps said they would not be in their business if they were not risk-takers, but that they could not go on without the cash they need to operate. International oil markets are tough and unforgiving, they said. The companies have a genuine self interest in supplying more product and seem ready to do so. (The capacity of the border crossing is another subject, see septel.) The proposal for a special financing facility may or may not be realistic, but it seems that without some kind of creative financial remedy, the companies will not be able to continue meeting Iraq's critical oil needs. Short of such a facility, one thing we might be able to help address is improving lines of communication between the companies and SOMO. The companies suggested, for example, that they would welcome a meeting with SOMO, arranged with U.S. help to ensure that the issues are actually dealt with, either inside or outside of Iraq.  
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